



MARTIN O'MALLEY
Mayor
250 City Hall
Baltimore, Maryland 21202

February 25, 2004

The Honorable Robert L. Ehrlich, Jr.
Governor
State of Maryland
100 State Circle
Annapolis, Maryland 21401

Dear Governor Ehrlich:

I have been briefed on the contents of former Senator Robert Neall's original fiscal plan. Additionally, I have had the opportunity to review the Baltimore City Public School System's (BCPSS) final fiscal plan as was submitted to Secretary James C. DiPaula on Friday, February 20th. I agree that the final plan lacks the requisite level of accountability to justify and safeguard the considerable financial investments that have been contemplated by the State of Maryland, City of Baltimore, and the Abell Foundation. The plan also does little to begin restoring the public's confidence in the management of the school system.

Believing that a consensus exists on the need to address the plan's deficiencies and create meaningful accountability measures that are currently absent in the State/City partnership, I wanted to share some specific recommendations that I hope can contribute to our bringing about a solution to this crisis. A comprehensive solution will need to achieve the goal of Senator Neall's original fiscal plan and address Secretary DiPaula's concerns regarding the shortcomings of the submitted plan. Moreover, we should craft and implement a framework within which the State/City partnership and our citizens receive assurances that the BCPSS's financial management deficiencies have been permanently rectified.

Any agreement between the State, the City and the BCPSS on the financial management and loan repayment commitments should be executed through a single or series of enforceable memoranda of understanding. These agreements would specify a schedule for the establishment of new budgetary processes, a schedule for the reduction and elimination of the structural deficit, and install revenue intercepts that would safeguard stakeholders' investments in this recovery plan.

Restoring Financial Progress

It is my understanding that there was one substantive difference between Senator Neall's original fiscal plan and the plan that was ultimately submitted to Secretary DiPaula. Specifically, Senator Neall advocated for an across-the-board, five percent reduction in wages for all BCPSS employees that would achieve approximately \$10 million in savings during the remaining months of fiscal year 2004. This recommendation was neither included in the submitted plan nor were alternative measures suggested that would have achieved comparable savings.

Given Senator Neall's belief that this level of savings is needed in the current fiscal year, we should work toward achieving it. We should realize, however, that a pay cut for teachers such as the one proposed—more severe than two previously rejected proposals — would:

- disrupt classrooms and earn the scorn of teachers, parents, and students;
- delay anticipated savings because unilateral action would violate the labor contract collectively bargained with the teachers and lead to a divisive and costly lawsuit;
- and jeopardize the Abell Foundation's \$8 million offer of assistance that is predicated on preventing Baltimore's teachers and public school students from having to pay the price for others' mismanagement.

Alternatives to this element of Senator Neall's original plan exist that might offer comparable savings and deserve our consideration, such as:

- ***Accelerating existing financial settlements:*** In fiscal year 2001 BCPSS and the City of Baltimore entered into a 15-year agreement obligating the City to pay BCPSS \$2.8 million every year to cover liability for unpaid leave accumulated by employees. These payments have occurred during each of the last three fiscal years leaving an unpaid balance of \$33.6 million. This agreement could be converted to provide BCPSS a one-time infusion of cash that could be immediately applied to reducing the cumulative deficit. While this fiscal maneuver will remove a future \$2.8 million revenue stream, it would address a pressing, current and potentially ruinous fiscal condition and allow other efficiency and accountability measures to take hold.
- ***Encouraging early retirement options:*** Nearly a thousand teachers have achieved the 30 years of employment service required to receive a full retirement benefit. While BCPSS's fiscal year 2005 budget plan already contemplates benefiting from a certain level of teacher retirements, an appropriately structured retirement incentive program could accelerate the departures of additional teachers and enable (1) a less disruptive attrition process and (2) the selective replacement of the System's highest paid and longest tenured teachers with new teachers making much more affordable starting salaries. The average gap between a retiring 30-year teacher and a newly hired teacher is approximately \$28,000.
- ***Instituting further layoffs at the end of school year:*** If, after all alternative measures have been completely exhausted, BCPSS's finances still cannot support existing staffing levels, further layoffs should be enacted. These reductions should occur immediately

upon the completion of the school year in order to minimize disruptions during the academic term and allow impacted employees to pursue alternative employment during the summer months.

Safeguarding Investments

As you know, Secretary DiPaula's February 24th letter to the System's Board of Commissioners documents eight specific fiscal and management deficiencies within the submitted plan. Rectifying these failures will likely entail the following:

- ***Documenting the financial success of Senator Neall's Phase 1 and 2 cost containment plans.*** Through independently audited monthly close-out reports, we could illustrate how these savings are being annualized in BCPSS's fiscal year 2005 budget plan. These savings, yielded largely through the previously implemented layoffs, will yield approximately \$15 million in savings during the current fiscal year and an annualized savings of \$30 million.
- ***Augmenting BCPSS's submitted plan*** to include a month-by-month schedule of specific steps to be taken to achieve the savings outlined in Phase 3 of the cost containment plan and the assorted initiatives planned for fiscal year 2005. Included within this schedule would be precise estimates of the value and timing of financial impacts with quantifiable targets (e.g., expenditures, filled position levels, etc.) to first reduce, then eliminate, the BCPSS's cumulative deficit. Methods for validating these estimates and monitoring the progress towards achieving this enhanced plan's full implementation will be discussed further in the next section.
- ***Addressing systemic deficiencies*** (e.g., competent fiscal controls, effective personnel systems) through immediate remedial assistance from the State's Department of Budget and Management (DMB), the City's Department of Finance and Mayor's Office of Information Technology, and the full implementation of the recommendations contained within the Greater Baltimore Committee/Presidents' Roundtable report and the State- and City-sponsored Ernst & Young independent audit report.

Ensuring Lasting Accountability

We must create and sustain a vigorous and disciplined oversight of the BCPSS's fiscal responsibilities. In order to achieve this, and to respond to Secretary DiPaula's concerns regarding the failures of the BCPSS's organizational culture, the State and City should agree to a number of specific commitments, until such time as the deficit has been eliminated:

- The Secretary of DMB and the City's Director of Finance will agree to approve, with signature, the BCPSS's monthly close-out/progress reports. The BCPSS's independent auditor will co-sign these reports to assure accuracy.

- The DBM and City Finance Department will agree to convene quarterly progress meetings with senior BCPSS finance officials.
- The City Council President, in conjunction with the leadership of the Baltimore City Delegation, will preside over regularly scheduled financial hearings to monitor the BCPSS's progress in reducing its deficit.
- DMB and City Finance Department will send representatives to participate in all School Stat accountability sessions.
- BCPSS will produce an affordable, downsized staffing model based on projected attrition. DMB and City Department of Finance will monitor the progress of this plan and if desired attrition fails to materialize, a corresponding number of layoffs will be implemented prior to the start of the 2005 school year.
- BCPSS specifies a new budget making and monitoring processes with specified dates and formal public (e.g., board notification/approval for expenditures of a certain threshold or that deviate from previously approved plans) disclosure.

School Board Reform

Finally, the three most recent school board members appointed jointly by you and me, have strong management or legal backgrounds. We will work to recruit similarly strong candidates to fill the three vacancies, which will arise in June.

Despite what I sincerely believe were the best of intentions at the time of its inception, the original State/City Partnership has been a partnership in name only. I hope this is a first step in a constructive process by which real accountability measures are put in place and clear lines of responsibility are established.

I look forward to discussing these recommendations with you later today.

Sincerely,



Mayor

MOM

CC: Hon. Thomas V. "Mike" Miller, Jr.
Hon. Michael Busch
Hon. Ulysses Currie
Hon. Sheila Hixson
Hon. Norman Conway
Hon. Nathaniel McFadden
Hon. Salima Marriott
Hon. Sheila Dixon
Hon. Nancy Grasmick
Dr. Bonnie Copeland